



State of Idaho

Internal Control Report

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in accordance with *Government Auditing Standards*

Fiscal Year 2012



Legislative Services Office Idaho State Legislature

Jeff Youtz
Director

Serving Idaho's Citizen Legislature

February 15, 2013

Honorable C.L. "Butch" Otter, Governor
Honorable Members of the Legislature
Honorable Brandon D. Woolf, State Controller

We are pleased to submit the State of Idaho *Internal Control Report* as it relates to our audit of the statewide *Comprehensive Annual Financial Report (CAFR)* covering the fiscal year ended June 30, 2012. This *Internal Control Report* is an integral part of the *CAFR* audit process and is required by *Government Auditing Standards* issued by the Comptroller General of the United States.

These standards require that we consider the internal control over financial reporting and disclose weaknesses that could have a material effect on the financial statements. We are also required to perform and disclose the results of tests of compliance with certain laws, regulations, and other requirements that could have a direct and material effect on the financial statement amounts.

The results of our audit identified five weaknesses in internal control. Although the risk of misstatement exists as a result of these issues, none of these weaknesses resulted in material misstatements that were not corrected as a result of the audit. As such, we were able to issue an unqualified opinion on the financial statements.

This report is available on our website at www.legislature.idaho.gov, and the *CAFR* can be obtained from the Idaho State Controller's Office on its website at www.sco.idaho.gov or by calling 208-334-3100.

Sincerely,

April Renfro, CPA, Manager
Legislative Audits Division

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

April Renfro, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

TABLE OF CONTENTS

| | |
|---|---|
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 1 |
| Schedule of Findings and Responses for the Year Ended June 30, 2012 | 3 |
| Findings and Responses for the Year Ended June 30, 2012 | 4 |



Legislative Services Office Idaho State Legislature

Jeff Youtz
Director

Serving Idaho's Citizen Legislature

December 20, 2012

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Honorable C.L. "Butch" Otter, Governor
Honorable Members of the Legislature
Honorable Brandon D. Woolf, State Controller

We have audited the basic financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Idaho, as of and for the fiscal year ended June 30, 2012, that collectively comprise the State's basic financial statements, and have issued our report thereon dated December 20, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors have audited the financial statements of Boise State University, Eastern Idaho Technical College, Idaho State University, Lewis-Clark State College, University of Idaho and their respective component units, the Endowment Fund Investment Board, State Lottery Commission, Public Employee Retirement System of Idaho, Public Employees' Deferred Compensation Plan, Idaho Judges' Retirement Fund, IDEal Idaho College Savings Program, Idaho Individual Risk Reinsurance Pool, Idaho Small Employer Health Reinsurance Program, Petroleum Clean Water Trust Fund, Idaho Building Authority, Bond Bank Authority, and the Idaho Housing and Finance Association as described in our report on the State of Idaho's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported separately by those other auditors. The financial statements of the Idaho Housing and Finance Association, Lewis-Clark State College, Boise State University, Idaho State University, University of Idaho, Eastern Idaho Technical College Foundation, Lewis-Clark State College Foundation, Boise State University Foundation, Idaho State University Foundation, and the Public Employees' Deferred Compensation Plan were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of the State of Idaho is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Idaho's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Idaho's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Idaho's internal control over financial reporting.

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

April Renfro, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

Statehouse, P.O. Box 83720
Boise, Idaho 83720-0054

Tel: 208-334-2475
www.legislature.idaho.gov

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 12S-1.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be significant deficiencies: 12S-2, 12S-3, 12S-4, and 12S-5.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Idaho's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the State of Idaho in a separate correspondence issued at the State agency level.

Responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management of the State of Idaho, the Governor, the State Controller, members of the Idaho State Legislature, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a public document and its distribution is not limited.

Sincerely,

A handwritten signature in black ink that reads "April Renfro". The signature is written in a cursive, flowing style.

April Renfro, CPA, Manager
Legislative Audits Division

**STATE OF IDAHO
INTERNAL CONTROL REPORT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

CONTROLLER, OFFICE OF THE STATE

- 12S-1 Guidance was incorrectly interpreted for recording unsettled trades payable resulting in a material misstatement.
- 12S-2 Agencies are using inappropriate signatures on time sheets and failing to maintain employee time records.

LABOR, DEPARTMENT OF

- 12S-3 The Department of Labor accounts receivable closing package included inaccurate and unsupported amounts.
- 12S-4 The Department of Labor did not properly account for funds advanced from the federal Unemployment Insurance Program.

TRANSPORTATION, DEPARTMENT OF

- 12S-5 Financial reporting processes contain significant deficiencies in internal control allowing several reporting errors to go undetected.

**STATE OF IDAHO
INTERNAL CONTROL REPORT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

CONTROLLER, OFFICE OF THE STATE

FINDING 12S-1

Guidance was incorrectly interpreted for recording unsettled trades payable resulting in a material misstatement.

Type of Finding: Material Weakness

Criteria: Idaho Code Section 67-1001 (2) requires that the Office of the State Controller (Office) submit Generally Accepted Accounting Principles (GAAP) financial statements to the Governor and Legislative Services on or before the first day of January for the preceding fiscal year. The Office achieves compliance through the preparation and submission of the statewide *Comprehensive Annual Financial Report (CAFR)*.

Condition: Unsettled trades payable account for tax anticipation notes security proceeds that have a trade date prior to year-end and a settle date after year-end; they are reported on the accounts payable line of the financial statements. Management incorrectly interpreted the requirements for reporting unsettled trades payable which resulted in financial statements that are not in material compliance with GAAP.

Effect: The financial statements submitted for audit contained a material misstatement of the Governmental Funds Balance Sheet. The General fund accounts payable were understated by \$264,765,000. The misstatement was corrected by the Office before the *CAFR* was finalized.

Cause: Management interpreted Governmental Accounting Standards Board (GASB) guidance incorrectly for this change in reporting by the State.

Recommendation: We recommend the Office review and correctly implement accounting guidance with particular attention to higher risk areas, such as new or changing accounting standards or financial transactions.

Management's View and Corrective Action Plan: *We agree with the finding. We have reviewed the GAAP guidance and made the necessary corrections to our documentation, instructions, and in our CAFR reporting system to properly reflect the unsettled trades payable account. We have discussed the appropriate guidance and changes with staff to ensure the information is correctly reported in the future.*

Scheduled Completion Date for Corrective Action Plan: This corrective action was implemented prior to the issuance of the financial statements.

Contact Person: Brandon Purcell, CGFM, CFE
Chief, Bureau of Reporting & Review
Office of the Idaho State Controller
700 W. State Street, Boise, ID 83720
Phone Number: 208-332-8811

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. As previously noted, the misstatement was corrected by the Office before the *CAFR* was finalized. We will review the documentation and instruction changes described in the corrective action during follow-up procedures completed 90 days after issuance of the report.

FINDING 12S-2

Agencies are using inappropriate signatures on time sheets and failing to maintain employee time records.

Type of Finding: Significant Deficiency

Criteria: The Fair Labor Standards Act (FLSA) requires employers to maintain certain records for each non-exempt worker. These records include hours worked each day, total hours worked each workweek, and total overtime earnings for the workweek. FLSA requires this information to be accurate.

In addition, the internal control integrated framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) identifies control activities that help ensure management directives are carried out throughout the operation. Verifications, approvals, and authorizations are all control activities that support this objective.

Condition: Time sheets in I-TIME can be created, changed, and approved on behalf of an employee using one of two electronic signatures – "Employee signature on file" or "Signed on behalf of."

Time sheets that are signed "Employee signature on file" require the agency to maintain the employee-signed time sheet on file for audit purposes. We noted that there were no time sheets on file at the agency for 9 out of the 22 (41%) sampled time sheets with this signature. The following agencies were those identified in the sample that did not have the required time sheets: Idaho Senate, Office of the State Controller, Liquor Division, Military Division, Department of Correction, Department of Health and Welfare, Department of Juvenile Corrections, and Division of Veterans Services (2 instances).

Time sheets that are signed "Signed on behalf of" require the employee to verify that the time sheet submitted on their behalf was correct by signing the time sheet before another one can be created in I-TIME. We noted that 6 out of the 46 (13%) sampled time sheets with this signature were never signed by the employee. The following agencies were those identified in the sample that had time sheets never signed by the employee: Department of Administration, Department of Fish and Game (2 instances), Department of Lands, Department of Parks and Recreation, and Division of Professional-Technical Education.

Cause: Agency personnel misunderstand the requirements and use of the electronic signatures. For example, we have found that in many situations where “Signed on behalf of” was used incorrectly, the employee never enters their time; it is always entered by someone else. Therefore, until the employee enters their own time they are not required to sign them. In these situations, the time sheets should be signed "Employee signature on file," and the agency should have employee-signed time sheets on file.

The Office of the State Controller (Office) provides training and reminds agencies through various memos. However, there is still confusion at the agency level, and the Office has no process or procedures to confirm that agencies are following the correct use of the electronic signatures.

Effect: In both cases, the employees are not signing a time sheet to verify their time worked or leave taken. This creates the possibility for errors and other irregularities to occur in employee timesheets that could go undetected. In addition, it creates noncompliance with federal record-keeping requirements.

Recommendation: We recommend that the Office remind agencies when each electronic signature should be used and implement procedures or controls to ensure the proper use of the electronic signatures.

Management’s View and Corrective Action Plan: *On October 25, 2012, a memorandum was sent to all agency personnel/payroll staff regarding modifications made to the I-Time application that will eliminate any confusion. As of November 2, 2012, the Central Payroll Officers or Time Entry Assistants will only see one button (either signed on behalf of-or-employee signature on file) based on the ‘employee profile’. This referenced memorandum can be found on the SCO website under Payroll/Correspondence.*

With the most recent modification to I-Time, the State Controller’s Office has done everything possible to eliminate any confusion between ‘signed on behalf of’ or ‘employee signature on file’. The Division of Statewide Payroll will continue to provide training on the subject and the situation has been documented in the DSP User Manual for agencies to reference in the future.

However, as mentioned in the last three audit exit conferences, the State Controller’s Office does not have audit authority to perform ‘site visits’ to ensure signed time sheets are on file at the individual agencies.

It is our opinion that the State Controller’s Office is operating as required by law. Idaho Code 67-2012 requires the head of departments or institutions to certify that all time sheets (payroll vouchers) sent to the Controller for payment are true, just, and rendered as charged. Therefore, it is the responsibility of the individual agency to ensure a ‘signed time sheet is on file’ when required and when this requirement is not met it would result in an individual agency audit finding from LSO Auditors.

Scheduled Completion Date for Corrective Action Plan: November 2, 2012.

Contact Person: Audrey Musgrave, Deputy State Controller
Division of Statewide Payroll
Office of the Idaho State Controller
700 W. State Street, Boise, ID 83720
Phone Number: 208-334-2394

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. We recognize the effort the Office has made through communication to state agencies and through I-Time application modifications to eliminate the identified control weakness. However, we believe the Office has statutory authority to perform procedures to ensure state agencies maintain timesheets as required by policies established by the Office. Idaho Code Section 67-1001 provides that it is the duty of the State Controller to superintend the fiscal concerns of the state, with its accounting, informational, payroll, and related data processing services. To assist in this duty, Idaho Code 67-1007 grants authority to the State Controller to examine any documents (books, papers, accounts, vouchers, and other) of any state officers and custodians of state funds. We will review the status of the Office's corrective action during follow-up procedures completed 90 days after issuance of the report.

LABOR, DEPARTMENT OF

FINDING 12S-3

The Department of Labor accounts receivable closing package included inaccurate and unsupported amounts.

Type of finding: Significant Deficiency

Criteria: The Department of Labor (Department) is required to submit accounts receivable information to the Office of the State Controller as a part of the closing package process for inclusion in the statewide *Comprehensive Annual Financial Report (CAFR)*. Closing packages include instructions based on government accounting standards to ensure accurate information is submitted by the Department.

Additionally, the Internal Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) identifies control activities that help ensure management directives are carried out throughout the operation. These activities include approvals, authorizations, verifications, reconciliations, and segregation of duties.

Condition: The accounts receivable closing package originally submitted by the Department to the Office of the State Controller included several significant errors and the amounts reported were not supported by the accounting records. The Department's closing package preparation process includes a review by a separate staff member, but none of the errors were identified during this review process. These errors indicate that deficiencies exist in the internal controls designed to ensure complete, accurate, and supported accounts receivable closing package information is submitted.

The errors included in the accounts receivable closing package are summarized below:

Unemployment Insurance Tax

- The “Allowance for Uncollectable Accounts” from taxpayers was overstated by \$187,796. The Department submitted a correction to the closing package to report the proper amount of \$297,136.
- The “Estimate of Refunds” payable to taxpayers was overstated by \$1,714,346. The Department submitted a correction to the closing package to report the proper amount of \$460,398.

Unemployment Insurance Benefits from Claimants

- The amount of revenue received from claimants was overstated by \$864,664. The Department submitted a correction to the closing package to report the proper amount of \$93,339.
- The “Allowance for Doubtful Accounts” due from claimants was understated by \$3,074,898. The Department submitted a correction to the closing package to report the proper amount of \$4,946,431.

The Department’s net accounts receivable at the end of fiscal year 2012 was approximately \$134 million.

Cause: During the audit, we noted that the Department’s various accounting systems were not set up to accurately track accounts receivable information. In addition, the Department staff did not always appear to have the necessary understanding of the closing package requirements to properly report accounts receivable information to the Office of the State Controller.

Effect: Inaccurate accounts receivable amounts were reported to the Office of the State Controller for inclusion in the statewide *CAFR*. However, the Department resubmitted materially accurate accounts receivable information after the adjustments were identified during the audit.

Recommendation: We recommend that the Department strengthen internal controls to ensure accounts receivable amounts reported in the closing package are accurate and properly supported by accounting records.

Management’s View and Corrective Action Plan: *We agree that changes and corrections were made to amounts submitted on the closing packages, and thank the Legislative Audit staff for their assistance.*

The due date for the accounts receivable closing package was three weeks earlier in SFY 2012 than it was in SFY 2011, making obtaining accurate information more difficult. Appropriate adjustments for the earlier due date were not made when computing the estimate of refunds to be reported in the closing package. The closing package schedule will be reviewed in advance this year and care will be taken to ensure computations are accurate.

The amounts reported for “Allowance for Uncollectable Accounts” from taxpayers and “Allowance for Doubtful Accounts” due from claimants are estimates -- an educated guess -- on whether or not accounts will be collected. The only way to benchmark accuracy is when all

accounts for a year have been either collected or written off, and that can take anywhere from five to ten years. Because these amounts are estimates, the allowances are uncollectable or doubtful accounts were not over or understated, the estimates were revised. The estimates submitted are based on the knowledge, experience, and opinion of Department staff who are experts in UI Tax and Benefit overpayment recoveries. These staff will continue to be consulted to arrive at the estimates to include in the closing package. Documentation on estimates reported will be maintained, and documentation of accounting records used in developing the estimates will be maintained.

The benefit payment system the Department currently uses is a very complex old system that does not provide the data to distinguish revenue collected from claimants for the repayment of benefit overpayments from the total repayments collected. Considerable time was spent extracting data from the benefit payment system to obtain the revenue figures reported. The Department is currently developing a new UI tax and benefit payment system that, when implemented, will provide the data to determine this revenue figure. Until that time, we will continue to use the same methodology as was used to develop the final figure for State FY 2012. Due to the limitations of the benefit payment system we cannot guarantee this figure to be 100% accurate; however we will make every effort to provide the most accurate information that is reasonably available.

This finding was discussed in December 2012 and January 2013 with staff responsible for the closing package.

Scheduled Completion Date for Corrective Action Plan: Procedures for preparing the closing package to ensure correct amounts are reported will be updated prior to June 30, 2013.

Contact Person: Joni Booth
Idaho Department of Labor
317 West Main Street, Boise, ID 83735
Phone Number: 208-332-3570 Ext. 3165

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during follow-up procedures completed 90 days after issuance of the report.

FINDING 12S-4

The Department of Labor did not properly account for funds advanced from the federal Unemployment Insurance Program.

Type of finding: Significant Deficiency

Criteria: The Department of Labor (Department) is required to submit unearned revenue information to the Office of the State Controller as a part of the closing package process for inclusion in the statewide *Comprehensive Annual Financial Report (CAFR)*. Closing packages include instructions based on government accounting standards to ensure accurate information is submitted by the Department.

The Department is also only allowed to request reimbursement for the federal portion of the Unemployment Insurance Program (UI) after the State has made benefit expenditures.

Additionally, the Internal Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) identifies control activities that help ensure management directives are carried out throughout the operation. These activities include approvals, authorizations, verifications, reconciliations, and segregation of duties.

Condition: The Department inappropriately requested and received reimbursements from the federal government for UI Program benefit amounts in excess of the amounts supported by UI Program expenditures. They also did not reconcile the amounts received for the UI Program to the amounts expended. At the end of the fiscal year, the amount drawn in excess of expenditures should have been reported to the Office of the State Controller as unearned revenue as part of the closing package process. No unearned revenue was reported.

The Department completed retroactive reconciliations of UI Program draw requests to UI Program expenditures. The results of the reconciliations identified approximately \$2.9 million drawn in excess of UI Program expenditures.

Cause: The Department knowingly drew federal UI Program funds without supporting expenditures which is not compliant with the reimbursement based requirements of the UI Program. In addition, the Department did not reconcile the amounts drawn for the UI Program to the amounts expended, and the fiscal staff did not appear to have the necessary knowledge to properly account for and report unearned revenue.

Effect: The Department did not report unearned revenue amounts to the Office of the State Controller for inclusion in the statewide *CAFR*, and the Department inappropriately advanced UI Program funds from the federal government.

Recommendation: We recommend that the Department implement internal controls to ensure federal funding activities are reconciled and that amounts drawn for the UI Program correspond to the amounts expended. We also recommend that the Department submit proper closing package information to the Office of the State Controller.

Management's View and Corrective Action Plan: *We will examine the process used to determine the amount of federal UI Program funds to draw and will ensure federal funds drawn do not exceed federal expenditures. At the time of the audit, we were in the process of implementing monthly reconciliations for each federal UI program to monitor the cash balance. These reconciliations will be completed monthly and monitored closely. In the unlikely event funds are drawn in excess of expenditures at the end of State Fiscal Year 2013, unearned revenue will be reported.*

We will make every reasonable effort to ensure reporting to the State Controller is correct. Our efforts to do this are constrained by existing systems and staff resources. We must balance time and money spent on reporting and time and money spent providing service to customers.

Accounting staff will review closing packages well in advance of the State fiscal year and to ensure they are familiar with the closing packages and fully understand what is to be reported.

Scheduled Completion Date for Corrective Action Plan: Monthly reconciliations of federal cash draws and expenditures have been completed from July 2012 to the present. The methodology used to calculate federal program cash draws was modified in December 2012.

Contact Person: Joni Booth
Idaho Department of Labor
317 West Main Street, Boise, ID 83735
Phone Number: 208-332-3570 Ext. 3165

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during follow-up procedures completed 90 days after issuance of the report.

TRANSPORTATION, DEPARTMENT OF

FINDING 12S-5

Financial reporting processes contain significant deficiencies in internal control allowing several reporting errors to go undetected.

Type of Finding: Significant Deficiency

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) published the *Internal Control Integrated Framework* which provides a basis for organizations to design internal control procedures to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. Components of this framework include Risk Assessment, Control Activities, and Information and Communication.

Risk Assessment is the identification and analysis of risks in order to form a basis to manage them. Control Activities are the policies and procedures that help ensure the entity's objectives are met. These activities include adequate review and authorization of financial reporting, and using the general ledger or other reliable records as the basis for reports. Information and Communication is the identification, capture, and exchange of information, including adequate source documentation to support financial transactions.

Each year state agencies are required to report accounting information to the Office of the State Controller (SCO) in the form of closing packages, which provide the details necessary to prepare the statewide *Comprehensive Annual Financial Report (CAFR)*. The SCO provides instructions for preparing the closing packages in accordance with Generally Accepted Accounting Principles (GAAP).

Condition: The Department of Transportation's (Department) internal control system failed to prevent or detect the following closing package errors:

- Additions to Land Purchases/Right of Way incorrectly included \$975,785 of expenditures unrelated to capital assets, such as payroll, travel, office equipment, and training.

- Year-end inventory records showed more than 1 million gallons of de-icer brine on hand at one storage site. Further evaluation found the actual amount was 55,000 gallons, causing inventory to be overstated by \$1,359,575.
- Adjustments to the additions of \$4,523,598 and dispositions of \$900,891 for equipment were entered in a net amount of \$3,622,707 as additions on the Equipment closing package.

Capital assets in progress (CIP) reported for bridges and roadways contained several errors:

- A \$22,707,081 adjustment was made in the accounting system without adequate supporting documentation.
- Schedules to support the amounts reported in the CIP closing package could not be tied to the accounting system.
- Expenditures were recorded for multiple projects which were not included in the CIP closing package schedule.
- Related expenditures in the accounting system exceeded amounts reported as CIP increases in the closing package by \$16,571,195 for Roadways and \$13,250,372 for Bridges.

Effect: The misstatements were not material to the statewide financial statements. However, it is reasonably likely that the deficiencies in the Department's internal control system which allowed these misstatements to be reported would fail to detect a material misstatement in the future.

Cause: Prior to submission to the SCO, each of these closing packages was reviewed and approved as correct. The errors indicate this review was not performed at the level of detail necessary to detect misstatements. Closing package schedules were not reconciled to related expenditures in the accounting system. Closing packages determined to have a higher risk of misstatement were not given additional scrutiny in the review process that would be commensurate with the risk. For example, the inventory closing package has increased risk of misstatement because the system used to account for inventory has a known history of errors that require monthly adjustments.

Recommendation: We recommend the Department improve the design and effectiveness of internal controls over the completion of closing packages. We further recommend the Department strengthen the review process to ensure accurate reliable financial information is provided to the Office of the State Controller.

Management's View and Corrective Action Plan: *The Department has improved the design and effectiveness of internal controls related to completion of closing packages. Closing package schedules will be reconciled to related expenditures in the accounting system. Closing packages determined to have a higher risk of misstatement will be given additional scrutiny that is commensurate with the higher risk. New reports have been implemented to identify variances between closing package schedule figures and historically expected results. We have used more physical inventories to validate reported inventory quantities and values. We have also instituted more internal peer review of closing packages to improve the internal control over this financial reporting process.*

Scheduled Completion Date for Corrective Action Plan: The Department has already implemented some of these corrective processes, and plans to implement all processes by the end of June 2013.

Contact Person: Gordon Wilmoth, Financial Executive Officer
Idaho Transportation Department
P.O. Box 7129, Boise, ID 83720
Phone Number: 208-334-8072

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during follow-up procedures completed 90 days after issuance of the report.

***Compiled and Published
by***

***Idaho Legislative Services Office
Audits Division
P.O. Box 83720
Boise, Idaho 83720-0054
208-334-4875***